



TenStep Supplemental Paper

21 January 2004

Talent Differential

Finance managers tend to have apprehensions about employee pay differentials. They often wonder whether top performers deserve such high remuneration

Top performers, by their very definition, are expected to exceed average performance targets. Research reveals that top performers invariably leave average performers behind by about 25%.

A scientific derivation of top performer differential further emphasizes the need to treat top performers differently.

Top performer differential (TPD)

To calculate TPD, it is essential to identify jobs that have quantifiable outcomes. For instance, it is easy to identify and measure output in a sales job. After a position is identified, the performance differential between top and average performers for that position can be calculated as follows:

1. **Average productivity per employee.** The average productivity of an average performer is calculated first. \$150,000, for instance, could be the average productivity of an average performer.
2. **Output of top performer.** Calculate the average performance of the top 1% of employees. In this case, assume it is \$200,000.
3. **Top performer increase factor.** TPIF is the ratio of the top performer output to the average performer output. Usually, it ranges between 0.5 and 3, but it can be exceptionally large for some companies. In this case, TPIF will be 1.3 (200,000 divided by 150,000)
4. **Revenue generated per employee.** This can be calculated by dividing the total revenue generated by a division in a year by the number of employees in that division. Alternately, the total revenue of the company is divided by the total number of employees. Assuming the total organizational revenue is \$200,000,000 and there are 1000 employees, the revenue generated per employee would be \$200,000.
5. **Revenue increase for top performers.** This is the product of the revenue generated by an average performer and the TPIF. In the above case, the revenue increase would be 200,000 multiplied by 1.3, or \$260,000.
6. **Value differential of average and top performers.** This gives the percentage difference in the value of revenues generated by an average performer and a top performer. Hence, subtracting \$200,000 from \$260,000, or \$60,000, would be the top performer differential. Simply stating, the revenue generated by top performers would be \$60,000 more than that of average performers.

The value difference between an average performer and a top performer gives a scientific justification for top performers getting paid more.